

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM**

Executive Summary

Applicant:	East Bay Agency for Children ("EBAC") 303 Van Buren Ave. Oakland, CA94610 Alameda County	Amount Requested: \$400,000 Date Requested: January 30, 2003 Loan Term: 15 years Resolution Number: HII-138
Project Site:	6117 Martin Luther King Jr. Way, Oakland, CA/3408 Martin Luther King Jr. Way, Berkeley, CA (one building)	
Facility Type:	Community Mental Health – Day Treatment Mental Health	
Uses of Loan Proceeds: Loan proceeds will be used to finance the acquisition of an existing building. This building is being jointly purchased with the Crisis Support Services of Alameda County which is also on today's agenda for a separate HELP II loan. (See Tab 7)		
Type of Issue:	HELP II Loan	
Prior Authority Borrower:	No	
Financial Overview: During our review period, EBAC has continued to increase operating revenue and has reported net income in each of the past three years. Interim results show a loss but management anticipates breakeven operations for fiscal year 2003. EBAC has a strong balance sheet with no long-term debt and significant financial resources.		
Sources of Revenues: (FYE 6/30/02)		
	<u>Amount</u>	<u>Percent</u>
County Contracts	\$2,040,765	48.87%
School Districts	556,368	13.32%
Foundations & Corporations	539,534	12.92%
Other Government	423,068	10.13%
Net assets released from restrictions	205,966	4.93%
Individual Contributions	172,021	4.12%
Special Events	143,393	3.43%
Other	122,134	2.92%
Investment Income, net	<u>(27,458)</u>	<u>(0.66%)</u>
	<u>\$4,175,791</u>	<u>100.00%</u>
Estimated Sources of Funds:		
Help II Loan	\$400,000	Estimated Uses of Funds:
Equity Contribution	<u>234,000</u>	Building acquisition
Total Sources	<u>\$634,000</u>	Financing costs
		Total Uses
		\$627,000
		<u>7,000</u>
		<u>\$634,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.		
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years to the East Bay Agency for Children subject to the standard HELP II loan provisions.		

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

East Bay Agency for Children (EBAC)

January 30, 2002

Resolution Number: HII-138

PURPOSE OF FINANCING: Loan proceeds will be used by EBAC to jointly purchase an existing building with Crisis Support Services of Alameda County (“CSS”). Each agency will be 50% liable for all costs and financial responsibilities associated with the building. EBAC has occupied a portion of the building for the past 12 years. (See Tab 7 for information regarding CSS.)

Purchase building \$627,000

EBAC and CSS entered into a purchase contract to acquire an existing building for \$1,253,841 (EBAC’s share of the cost equals \$627,000). The property consists of approximately 1 acre with a building approximately 9,600 square feet in size. The building straddles Berkeley and Oakland’s city limits with an appraised value at \$1.7 million.

Financing Costs 7,000

Authority fee \$5,000

Title/escrow fees 2,000

Total Uses of Funds \$634,000

Structure of Financing:

- 15-year fully amortized loan term in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,148).
- Total interest payments of approximately \$97,219.
- A first position lien on the property located at 6117 Martin Luther King Jr. Way, Oakland CA and 3408 Martin Luther King Jr. Way, Berkeley, CA.
- A first position lien on corporate gross revenue.
- Combined loan to value is 47% based on a combined \$800,000 note that will be jointly executed with Crisis Support Services of Alameda County.

FINANCIAL STATEMENTS AND ANALYSIS:

East Bay Agency for Children Statement of Activities (unrestricted)

	5 Months			
	Ending			
	Nov. 30	Fiscal Year Ended June 30,		
	2002	2002	2001	2000
	(unaudited)			
Support and Revenue:				
Unrestricted operating revenue				
County Contracts	\$ 738,692	\$ 2,040,765	\$ 1,772,436	\$ 1,554,737
School Districts	178,941	611,868	427,391	498,717
Other government sources	149,274	423,068	551,026	414,671
Foundations and Corporations	112,429	539,534	485,777	436,771
Individual contributions	44,880	172,021	111,756	107,547
Special events	39,685	143,393	78,356	93,241
Investment income, net	(29,538)	(27,458)	93,044	169,951
Other income	16,663	122,134	76,687	43,305
Net assets released from restriction	97,555	205,966	134,556	15,750
Total unrestricted operating revenue	<u>1,348,581</u>	<u>4,231,291</u>	<u>3,731,029</u>	<u>3,334,690</u>
Expenditures:				
Operating expenses				
Salaries & benefits	1,320,381	3,334,244	2,766,507	2,491,113
Contractors	67,729	135,394	120,263	133,477
Utilities & phone	22,923	39,340	32,397	27,905
Rent	28,309	57,569	48,120	26,000
Building & ground maintenance	14,109	27,331	10,310	10,784
Insurance	12,490	24,846	19,976	14,894
Supplies	37,417	113,877	115,876	71,204
Equipment purchase and maintenance	23,434	59,340	181,669	27,484
Local transportation	2,227	16,340	10,828	10,648
Recruitment & training	23,431	75,738	66,959	43,080
Community relations	11,992	54,149	61,851	43,210
Postage	5,290	8,079	12,902	7,423
Fees and dues	1,933	12,291	11,641	10,519
Subscriptions & publications	1,935	2,636	3,446	2,823
Legal and Accounting	5,503	33,481	21,705	29,778
Special events	17,703	58,431	38,372	24,946
Bad Debts	-	20,726	3,693	2,486
Loss of fixed asset retirement	-	-	-	34,293
Miscellaneous	9,112	41,417	23,785	15,223
Depreciation	-	55,320	52,386	76,123
Total operating expenses	<u>1,605,918</u>	<u>4,170,549</u>	<u>3,602,686</u>	<u>3,103,413</u>
Revenue in excess of (less than) expenses	(257,337)	60,742	128,343	231,277
Unrestricted Net Assets at beginning of year	2,400,647	2,339,905	2,211,562	1,980,285
Unrestricted Net Assets at end of year	<u>\$ 2,143,310</u>	<u>\$ 2,400,647</u>	<u>\$ 2,339,905</u>	<u>\$ 2,211,562</u>

East Bay Agency for Children
Statement of Financial Position

	5 Months Ending Nov. 30		As of June 30,	
	2002	2002	2001	2000
	(Unaudited)			
ASSETS:				
Current assets				
Cash and cash equivalents	\$ 663,810	\$ 1,060,285	\$ 1,244,200	\$ 574,319
Short-Term Investments	80,000	173,970	149,964	457,491
Accounts receivable, net	1,167,864	778,089	605,696	509,177
Accrued Interests	-	2,597	-	-
Prepaid Expenses	-	33,274	42,604	33,247
Gift Certificates	5,220	5,220	7,767	-
Total current assets	<u>1,916,894</u>	<u>2,053,435</u>	<u>2,050,231</u>	<u>1,574,234</u>
Marketable Securities	669,448	673,177	1,105,186	1,085,827
Property and equipment				
Land	67,695	67,695	67,695	67,695
Buildings	984,872	990,583	968,188	923,738
Furniture and fixtures	7,860	7,860	7,860	7,860
Equipment	106,217	100,506	63,416	59,409
Leasehold Improvements	129,071	129,071	-	-
Accumulated depreciation	(604,934)	(604,934)	(549,613)	(497,228)
Other Assets & Deposits	145,754	45,871	-	-
Total assets	<u>\$ 3,422,877</u>	<u>\$ 3,463,264</u>	<u>\$ 3,712,963</u>	<u>\$ 3,221,535</u>
LIABILITIES AND NET ASSETS:				
Current liabilities				
Accounts payable	\$ 13,674	\$ 75,700	\$ 136,878	\$ 23,949
Accrued vacation and payroll	137,571	202,437	183,903	171,671
Agency payable	228,984	132,926	281,080	198,995
Refundable advances	141,336	66,095	120,866	5,623
Total current liabilities	<u>521,565</u>	<u>477,158</u>	<u>722,727</u>	<u>400,238</u>
Net assets:				
Unrestricted	2,143,310	2,400,647	2,339,905	2,211,562
Temporarily restricted	375,777	203,234	284,106	243,510
Permanently restricted	382,225	382,225	366,225	366,225
Total net assets	<u>2,901,312</u>	<u>2,986,106</u>	<u>2,990,236</u>	<u>2,821,297</u>
Total liabilities and net assets	<u>\$ 3,422,877</u>	<u>\$ 3,463,264</u>	<u>\$ 3,712,963</u>	<u>\$ 3,221,535</u>
	Proforma (a)			
	2002	2002	2001	2000
Debt Service Coverage Ratios (x)	3.5	2.02	3.76	13.14
Debt/Unrestricted Net Assets (x)	0.17	0.02	0.02	0.02
Margin (%)		1.44	3.44	6.94
Current Ratio (x)		4.3	2.84	3.93

(a) Based on adding projected new debt to the 2002 financial results.

Financial Discussion:

During our review period, EBAC has continued to increase operating revenue and has reported net income in each of the past three years. Interim results show a loss but management anticipates breakeven operations for fiscal year 2003.

EBAC's total operating revenue has consistently increased 12% every year over our review period. Individual contributions and special events (fundraising) has increased over 50%. Investment income has decreased dramatically over our review period primarily due to the negative change in the economy.

Lease payments increased significantly, up 121% over our review period. EBAC had a contributor that subsidized the lease payment and due to the changing economic times this contributor is no longer able to continue this practice. By obtaining this financing, EBAC will be able to purchase this building and reduce its lease payments 43%.

Salaries and benefits also increased significantly primarily due to raises and salary adjustments. Three years ago, EBAC found that they were well below industry standards for wages and benefits resulting in a high turnover rate. EBAC brought wages and benefits up to industry standards and are now able to retain personnel. EBAC has also started employing staff all year instead of laying people off in the summer and rehiring in the fall. Also, in 1999-2000, EBAC expanded after-school programs as a method of better serving the communities needs.

Three years ago, EBAC had little or no technology and equipment. The increase in supplies and equipment purchase and maintenance was EBAC's decision to upgrade its facility to remain competitive. The computer equipment and technology purchases will allow EBAC to monitor each child and the progress made. It will also allow EBAC to streamline its administrative process. This expense will decline over the next few years.

Bad debt has increased dramatically over our review period. Each year, EBAC's site managers previously received verbal agreements from Oakland Unified School District Principals (OUSD) to perform services (starting in September and ending in June). This arrangement existed due to OUSD's poorly organized contract approval system. Several verbal contracts were not honored because some of the school site Principals did not complete the appropriate paperwork and subsequently left the school district. EBAC now receives formal written approval from the Principal's before work is started. This will help reduce the majority of bad debt.

The interim numbers reveal a deficit in operating revenue due to EBAC retaining staff all year resulting in higher expenses during the first five months of the fiscal year that begins on July 1. EBAC's management anticipates breakeven operations by the end of the current fiscal year.

EBAC's has a strong balance sheet with no long-term debt and significant financial resources.

EBAC has a solid financial position with unrestricted net assets of nearly \$2.4 million and good liquidity with cash and cash equivalents and marketable securities of nearly \$1.7 million. The proforma debt service coverage is 3.5x indicating that EBAC should be able to manage the new debt comfortably. With this financing EBAC will be able to save nearly \$25,000 a year compared to its current lease payments, or approximately \$367, 500 over the life of the loan.

EBAC's accounts receivable have increased due to payment delays from the Oakland Unified School District (OUSD). Management states that OUSD has consistently paid and that all receivable balances are deemed to be collectable.

II. BACKGROUND:

EBAC was founded in 1952 to provide educational services with mental health support for children unable to succeed in traditional classrooms. EBAC has developed a broad array of intervention and prevention programs. EBAC's programs serve over 15,000 children and youth and their families through either: 1) School-Based Programs supporting children, families and the surrounding communities of 13 public school sites in Oakland, Fremont, and youth violence prevention training in an additional 35 schools; 2) Intensive Day Treatment Programs for children ages 2 ½ to 5 years old with severe emotional difficulties; and 3) PediatriCare Grief and Illness Support Center for children and families coping with loss, serious illness, and trauma.

Licenses and Contracts:

EBAC is licensed by the Department of Social Services as a Therapeutic Nursery School. EBAC contracts with Alameda County for approximately 50% of its revenues.

Service Area and Competition:

EBAC is the sole provider of day treatment mental health services in Alameda County. The only competition EBAC has is Seneca, which is 15 miles away. Seneca's services is mainly for infants where EBAC is for infants, toddlers and their families.

UTILIZATION STATISTICS:

East Bay Agency for Children Utilization					
Encounters and (Number of Patients)					
FY Ended June 30					
Services	2002		2001		2000
Day Treatment Services (encounter equals one child day of attendance)	9,573/(70)		9,932/(70)		8,536/(60)
Community Service (encounter equals contact)	2,152/(538)		2,500/(625)		3,211/(803)
Early and Periodic Screening, Diagnosis and Testing	3,392/(424)		2,817/(352)		3,443/(430)
School and Community Based (After school, Outreach and Referral, Child Assault Prevention, Grief Counseling and Intervention) (encounter equals contact)	69,840/ (13,968)		49,840/ (9,968)		14,840/ (2,968)
TOTALS	84,957/ (15,000)		65,089/ (11,015)		30,030/ (4,261)

IV. OUTSTANDING DEBT:

EBAC has no outstanding long-term debt.

V. SECTION 15438.5 OF THE ACT:

With the proposed HELPII loan, EBAC will save approximately \$25,000 annually in comparison to its current lease payment. Savings realized will be passed through to the consuming public by expanding and improving services and continuing the support EBAC has provided to the community for over 50 years.

VI. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a Help II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years to the East Bay Agency for Children the standard HELP II loan provisions.